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November 17, 2008

AGENDA ITEM 8a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Selection of High Yield Fixed Income Managers
- II. PROGRAM:** Global Fixed Income
- III. RECOMMENDATION:** Approve ING Investment Management for Inclusion in the External High Yield Managers Spring-Fed Pool

IV. ANALYSIS:

At the October 20, 2008 Investment Committee meeting Staff presented a recommended list of external high yield managers that would be included in an external high yield manager spring-fed pool (Attachment 1). The Investment Committee approved Staff's recommended list with the exception of ING Investment Management (ING). The Investment Committee noted that information regarding ING had not been provided on the Wilshire Conflicts Check Report.

Subsequently, Wilshire has provided a revised Conflicts Check Report, which includes ING's updated disclosure information (Attachment 2).

The external high yield manager RFP received 31 proposals that met the minimum qualifications. All 31 proposals were read and scored by staff according to the technical proposal criteria listed in the RFP. After the technical proposals were scored, Staff reviewed the fee proposals and applied a mathematical formula to assign points. Fourteen firms were selected for on-site visits. The on-site visits were scored by Staff in accordance with the criteria listed in the RFP. Staff was impressed by ING's credit analysis process, the depth of their professional staff and ING's portfolio construction process, which emphasizes broad diversification and risk mitigation. Additionally, ING's proprietary credit analysis and portfolio management system provides ING with a competitive advantage. As a result, ING's final score in the RFP ranked highest among all participants in the selection process.

Staff recommends that ING be included in the external high yield manager spring-fed pool. Wilshire's opinion letter is Attachment 3.

V. STRATEGIC PLAN:

External Investment manager performance is monitored by staff and reported to the Investment Committee per CalPERS Strategic Plan.

- Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; and
- Goal IX: Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

The allocation to managers hired under this RFP will come from Global Fixed Income assets. The managers will charge a fee for services.

Staff performed this RFP to expand capacity within Global Fixed Income to allocate assets to the non-investment grade markets when market conditions are attractive for increased exposure to this sector.

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